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SUBCOMMITTE ON COMMODITIES AND RISK MANAGEMENT

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Mr. Chairman and members of the Subcommittee, thank you for the opportunity to provide a brief review of the performance of the farm economy and the commodity programs of the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). The goal of the U.S. Department of Agriculture (USDA) has been to implement the 2002 Farm Bill in an effective and timely manner to the benefit of producers, consumers and taxpayers. This morning, I will highlight a few of those accomplishments and discuss the performance of the 2002 Farm Bill.

USDA Farm Bill Implementation

USDA's primary goal over the past two years has been to implement all of the 2002 Farm Bill's provisions as quickly, efficiently and equitably as possible. This has been an enormous challenge, given the passage of the bill in the middle of the 2002 program year. Because we had been preparing for implementation prior to passage, the key provisions were quickly put in place for the 2002 crops. We estimate that 95 percent of the 2002 Farm Bill has now been implemented. The few remaining provisions are will be implemented over the next several months. The following activities illustrate the current status of key 2002 Farm Bill provisions.

The commodity provisions of Title I are fully operational, and producers are receiving their authorized benefits. To date, over $15 billion in commodity program payments, including direct, countercyclical, loan deficiency, peanut quota buyout and milk income loss contract (MILC) payments, have been issued. The final report of the payment limit commission was issued and the study of national dairy policy will be released soon.

Under Title II, we are implementing the largest conservation programs in USDA history. One new signup for the Conservation Reserve Program (CRP) has been held, the final rule published last week, and we are now considering when to hold the next signup. The revamped Environmental Quality Incentives Program (EQIP) was launched last May, and the Farm and Ranchland Conservation Program and the Grassland Reserve Program have also been implemented. To help with technical assistance for program implementation, we issued a rule which makes available non-Federal and private sector providers of technical assistance. We are now developing the final rule for the unprecedented Conservation Security Program (CSP) and expect to have it in place this summer.

Under the trade authorities of Title III, USDA has issued a final rule implementing the McGovern-Dole International Food for Education and Child Nutrition Program and implemented the Technical Assistance Program for Specialty Crops.

In rural development, Title VI, we have implemented the broadband, rural local television and value-added agricultural product development programs. We have proposed a rule for guaranteeing electric and telephone notes and are implementing the Rural Business Investment Program with the Small Business Administration.

Under the first-ever energy title in a farm bill, Title IX, we awarded grants under the joint USDA/Department of Energy (DOE) Biomass Research and Development Program, the Renewable Energy and Energy Efficiency Program and the Biodiesel Fuel Education Program. We also issued the final rule for the Commodity Credit Corporation (CCC) bioenergy program, which supports expanded ethanol and biodiesel production. In addition, we proposed a rule for the Federal Biobased Product Preferred Procurement Program (FB-4P), which will require all

Federal agencies to prefer biobased products in their procurements, and we expect to issue a final rule soon.

We continue on track to implement the Country of Origin Labeling provision. A proposed rule covering all affected commodities has been issued, and the final rule will be issued later this year. As directed by the Consolidated Appropriations Act, 2004, the program will initially be in effect for fish, fruits and vegetables.

Finally, we are implementing the provisions of Section 10708 of the 2002 Farm Bill on the compilation and public disclosure of data to assess and hold USDA accountable for the nondiscriminatory participation of socially disadvantaged farmers and ranchers in the Department's programs and expect to issue a report to Congress in the next several months. In the fall, we expect to have procedures in place to track farm program benefits provided directly or indirectly to individuals or entities under Titles I and II, as required by Section 1614.

Collectively, the provisions implemented and those few that remain in the process of implementation are helping to stabilize the farm economy, support the quality of life in rural areas and generate new economic opportunities for farmers and rural residents.

State of the Farm Economy

When USDA began implementing the farm program provisions of the 2002 Farm Bill in the summer of 2002, the Dow Jones Industrial Average had slipped below 8,000, the price of corn was under $2 per bushel, soybeans were under $5 per bushel and cotton was selling for 35 cents per pound. The farm economy had been weak for so long, beginning with the 1998 crops, many suggested such prices might be the norm for the future. At that time, the 2002 Farm Bill was poised to be costly and a highly significant part of future farm income.

The story today is remarkably different, as the U.S. agricultural economy has sharply rebounded. The index of prices received by farmers in April was the highest for any month since USDA started keeping records in 1910. Prices have strengthened despite generally good U.S. harvests in 2003 and disruptions in livestock and poultry trade caused by animal diseases. With good harvests and strong prices, U.S. net cash income surged to a record high in 2003 and producers are having another strong income year in 2004.

The improvement in agriculture is the result of some transitory supply factors and some more enduring demand developments. On the supply side for the 2003/04 crops, adverse winter weather in the Former Soviet Union countries and drought in Europe reduced wheat and coarse grain production. In addition, the soybean harvests in the United States and South America were reduced by a variety of factors, including drought and disease. For the 2004/05 crops, dry weather is reducing U.S. winter wheat production.

While these declines in production are likely to reverse in coming years, several positive demand developments appear more persistent. The global economy has substantially strengthened, boosting farm product demand. The variable and generally slow foreign economic growth since 1998, which was 1.6 percent in both 2001 and 2002, finally improved to 2.2 percent in 2003 and further improvement to 3.3 percent is expected this year. U.S. growth, at a near standstill in 2002, rose to 3.1 percent in 2003 and is expected to be above 4.5 percent this year.

The improved foreign economies, combined with lower global production, are increasing U.S. farm exports this year. USDA projects U.S. farm exports will reach $59 billion in fiscal year (FY) 2004, nearly equal to the all-time high. Had it not been for the finding of BSE in December and subsequent decline in U.S. beef exports, U.S. agricultural exports this year would be record-high.

Two added factors contributing to stronger exports are the lower U.S. dollar and China's growing net imports of agricultural products**.** The trade-weighted value of the dollar, measured against the currencies of countries that import U.S. agricultural products, was 6 to 7 percent lower in 2003, compared with 2001 and 2002. The trade-weighted value of the dollar, measured against the currencies of countries that compete against the U.S. in global agricultural product markets, was 15 to 20 percent lower in 2003, compared with 2001 and 2002. The reduced value of the U.S. dollar makes U.S. farm products cheaper in foreign currency terms and reduces the cost of our agricultural products relative to other potential suppliers.

China's strong economic growth, booming demand for food, accession into the World Trade Organization (WTO) and declining stocks of grain and cotton have caused U.S. agricultural exports to China to rise from $1.4 billon in FY 2002 to an estimated $5.4 billion in FY 2004. China's domestic uses of cotton and soybean meal have each nearly doubled during the past 5 years. U.S. exports of cotton and soybeans to China from October 2003 through March 2004 total $3.6 billion, more than double the level for this period a year earlier.

The improved U.S. economy has strengthened domestic demand for food. Sales in grocery, food and beverage stores during the first quarter of 2004 were up 3.3 percent, compared with one year ago. Domestic demand for some key industrial uses is also very strong. Ethanol production in February set another monthly record, up 25 percent from a year earlier.

On May 12, USDA issued its first official supply, demand and price forecasts for the 2004/05 crop years. With planted acreage based on the Prospective Plantings report released on March 31 and trend yields, USDA projects record high U.S. corn, soybean and rice crops in 2004, a good cotton crop, but a U.S. wheat crop about 11 percent below the 2003 level, which had a record-high yield.

Even with the increase in U.S. production and a rebound expected in European grain production, world markets are likely to remain robust, as stocks going into the upcoming crop year will be the lowest in many years. World grain demand during the current marketing year is expected to outpace production for the fifth consecutive year. By the end of this summer, global grain stocks as a percent of use will be the lowest since 1976 for rice, the lowest since 1972 for wheat, and the lowest on record for coarse grains. Stocks are also low for soybeans and cotton.

Regarding animal agriculture, U.S. production of red meat and poultry was down fractionally in 2003 and is forecast to be only slightly higher in 2004. Combined with stronger consumer demand, livestock and poultry prices remain above recent historical levels despite the discovery of BSE and the outbreaks of Avian Influenza. And, stable milk production last year followed by lower production in the first quarter of this year resulted in surging milk and dairy product prices.

With this market resurgence, farm cash receipts are expected to be a record high $215 billion in 2004. With spending on energy-based inputs up over the past two years, government payments down and a reduction in cattle revenue due to BSE, net cash farm income is forecast to decline from the record-high of 2003, but will still equal the average of the past two years.

With another sound income year in prospect, farmland values will likely rise again. These developments should continue the improvement in the farm sector balance sheet that we saw in 2003.

Finally, consumers will continue to have abundant affordable food, although with strong farm prices, retail food prices are expected to rise 3-3.5 percent this year, compared with 2.2 percent in 2003, as retail prices for red meat, dairy products, poultry, eggs, fresh fruits and vegetables and fats and oils increase.

Performance of the 2002 Farm Bill

The current state of the farm economy illustrates the important relationship between the performance of the farm economy and the performance of the 2002 Farm Bill. The 2002 Farm Bill provides a support structure for major crops and milk that is primarily countercyclical to the performance of commodity markets. When markets for major crops and milk are strong, as they are now, the support structure becomes generally benign; when these markets are weak, the support structure plays a more expansive role in augmenting farm income.

The 2002 Farm Bill was developed under a budget resolution that increased funding for farm commodity programs above the projected spending level under a continuation of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Bill), the so-called baseline. This increased funding was motivated by the low farm prices prevailing at the time and the desire by Congress to continue to supplement the level of support provided by the 1996 Farm Bill, as had been done by disaster and economic assistance legislation enacted in the four years prior to 2002.

Principal payment programs. The 2002 Farm Bill augments the incomes of major crop producers by authorizing direct payments, marketing assistance loan benefits and counter-cyclical payments. Direct payments are similar to the production flexibility contract (PFC) payments of the 1996 Farm Bill. These payments are unrelated to what or how much of a commodity a producer grows and the price received by producers. Direct payments are determined by a producer's fixed payment acreage (85 percent of crop base), fixed direct payment yield and fixed payment rate. The 2002 Farm Bill established direct payment rates slightly above the PFC payment rates that prevailed in the final year of the 1996 Farm Bill's

existence for food and feed grains, upland cotton and rice. Direct payments were also introduced for soybeans, other oilseeds and peanuts—crops that were not eligible for PFC payments under the 1996 Farm Bill. Other oilseeds are defined as sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, or, if designated by the Secretary, another oilseed. The Secretary has designated crambe and sesame seed as other oilseeds.

Marketing assistance loan rates were increased for feed and food grains, compared with the 1996 Farm Bill levels; held the same for rice; held about the same for upland cotton and other oilseeds; and reduced for soybeans. New marketing assistance loan programs were introduced for dry peas, lentils, small chickpeas and peanuts.

A new concept, countercyclical payments, was implemented for food and feed grains, upland cotton, rice, soybeans, other oilseeds and peanuts. Countercyclical payments may be viewed as an extension of the "market loss payments" authorized in prior disaster and economic assistance legislation and are similar to deficiency payments used in the 1980s. Under the 2002 Farm Bill, countercyclical payments became an integral part of the support structure for major crops, rather than an after-the-fact addition that depended on passage of annual legislation. Like direct payments, countercyclical payments are decoupled from a producer's current plantings but depend on the level of market prices. Payment levels are determined by a producer's fixed payment acreage (85 percent of crop base), fixed countercyclical payment yield and a payment rate that varies depending on market price.

Federal farm program spending. Federal spending on farm price and income support programs is sharply below the levels projected at the time the 2002 Farm Bill was enacted. The FY 2003 Mid-Session Review of the President's Budget released in July 2002, following enactment of the 2002 Farm Bill, projected that outlays on commodity programs during FY 2003

through FY 2005 would total $52.6 billion. However, the FY 2005 President's Budget released in February 2004, which reflected the improving farm economy, estimated outlays for FY 2003 through FY 2005 at $35.3 billion, about $17.3 billion less than the level projected in mid-2002. Since the February estimates, the farm economy has continued to strengthen and a more current estimate of the reduction in farm program outlays over the period may be about $20 billion.

Current estimates of spending on direct payments are about the same as the initial 2002 Farm Bill projections. About $5.3 billion is being paid to producers annually in the form of direct payments. For the 2002 through 2005 crop years, direct payments are expected to account for over half of all payments to producers under commodity programs.

In mid-2002, USDA estimated that countercyclical payments for the 2002 through 2005 crop years would total $23 billion. The President's Budget released in February of this year estimates payments over the same period will fall by nearly 50 percent to $12.2 billion and that figure would be lower if based on more recent price forecasts.

Loan deficiency payments, the primary benefit distributed under the 2002 Farm Bill's marketing assistance loan program, depend on production and market prices. In mid-2002, USDA estimated that loan deficiency payments for the 2002 through 2005 crops would total $12 billion. The FY 2005 President's Budget estimates payments over the period will amount to slightly over $3 billion and that figure, too, would be lower if based on USDA's most recent price forecasts.

As farm program payments have declined, payments have accounted for a much smaller share of U.S. farm income. In 2000, payments to producers, including disaster and economic assistance payments (excluding conservation payments), were $21.2 billion, equal to 11 percent of U.S. farm cash receipts and 37 percent of U.S. net cash farm income. In 2004, these payments

are expected to total only $7.6 billion, equal to 4 percent of U.S. farm cash receipts and 14 percent of U.S. net cash farm income.

Changes in program structure. In addition to the performance of the price and income support provisions, the 2002 Farm Bill featured some substantial changes in the structure of farm programs that merit discussion. One change was that producers were provided the opportunity to update crop acreage bases and payment yields, which then remain fixed for the life of the 2002 Farm Bill. Producers could update bases for all crops, or they could retain historical bases and add oilseeds to their current base acreage, subject to certain restrictions. Payment yields for direct payments were the payment yields established under the 1996 Farm Bill, except for oilseeds, which were based on recent yields but factored back to the 1981-85 period. Payment yields for countercyclical payments were the payment yields established under the 1996 Farm Bill or they could be partially updated, based on alternative methods, but only if bases were updated. Peanut payment yields for direct and countercyclical payments were determined using recent yields.

Prior to passage of the 2002 Farm Bill, there were 211.5 million base acres of crops eligible for 2002-crop PFC payments. Reflecting the additional crops eligible for payments, producers enrolled 269.3 million base acres of crops eligible for 2002-crop direct and countercyclical payments, including 211.4 million base acres of crops previously eligible for PFC payments, 53.5 million acres of soybeans, 2.9 million acres of other oilseeds and 1.5 million acres of peanuts. For the 2002 crops, producers on 91 percent of all eligible farms accounting for 98 percent of total base acres elected to enroll for direct and countercyclical payments. About 45 percent of all enrolled producers, accounting for 40 percent of base acres, elected to update bases and partially update program yields for countercyclical payments.

While total base acres for crops eligible for PFC payments was nearly unchanged under the provisions of the 1996 and 2002 Farm Bills, there were considerable differences for individual crops. The largest absolute change in enrolled base acres occurred for corn in which 2002-crop base acreage increased from 81.6 million acres under the 1996 Farm Bill to 87.9 million under the 2002 Farm Bill, a 7.6-percent increase. Upland cotton base acreage increased from 16.2 million acres under the prior farm bill to 18.9 million, or 16.3 percent; and rice base acres rose 9 percent, from 4.1 million acres to 4.5 million. In contrast, 2002-crop base acreages of wheat, grain sorghum, barley and oats all declined under the 2002 Farm Bill. Wheat base acreage for the 2002-crop dropped by 2.2 million acres, or 3 percent; grain sorghum base fell from 13.6 million acres under the 1996 Farm Bill to 12.1 million, or 11 percent; and barley base declined from 11.1 million acres to 8.8 million, or 20 percent. The largest decline in acreage bases under the 2002 Farm Bill occurred for oats, falling by more than 50 percent, from 6.5 million acres to 3.1 million.

The changes in base acres are not surprising and reflect economic incentives. Per acre direct payments are generally higher for corn, rice and upland cotton than for other crops eligible for direct payments, and projected per acre countercyclical payments for corn, rice, and upland cotton were generally above those for other crops during the period when acreage bases could be established by producers under the 2002 Farm Bill. As a result, most producers who reduced plantings of corn, rice and upland cotton since 1991-95, the previous period used to establish bases under the 1996 Farm Bill, appear to have maintained their bases, while producers who increased plantings of these crops since 1991-95 appear to have increased their bases. In addition, upland cotton plantings have increased in recent years in the Southeast. Since 1998-

2001 plantings of wheat, sorghum, barley and oats were considerably below established bases, so declining base acres for these crops were expected.

Producers planted an average of 73.5 million acres of soybeans during 1998-2001. In comparison, producers enrolled only 53.5 million acres of soybean base under the 2002 Farm Bill. To establish all 73.5 million acres as soybean base, producers would have had to update all bases on the farm, and that would have meant losing corn base. It appears producers believed that maintaining corn base was preferable to establishing a soybean base. This is consistent with differences in expected direct and countercyclical payments for corn and soybeans at the time producers had to establish acreage bases under the 2002 Farm Bill.

For wheat, feed grains, rice and upland cotton, direct payment yields averaged across all enrolled producers were within 2 percent of payment yields for PFC payments. For soybeans, which did not have a PFC yield, the direct payment yield averaged 30.8 bushels per acre.

Producers elected to update program yields for countercyclical payments on 39 percent of total base acres enrolled under the 2002 Farm Bill. The average payment yield for countercyclical payments exceeds the payment yield for direct payments by 4.6 percent for wheat, 5.7 percent for upland cotton, 6.4 percent for rice, 10.7 percent for soybeans and 11.7 percent for corn.

Other Commodity Programs—Peanuts, Pulses, Sugar and Dairy. The 2002 Farm Bill replaced the two-tiered price support program of quota and additional peanuts in place since 1977 with direct and countercyclical payments, marketing assistance loans and a quota buyout. To be eligible for direct and countercyclical payments, a producer had to establish base acreage and a payment yield for peanuts. Producers have enrolled 1.47 million base acres of peanuts with an average program yield for direct and countercyclical payments of 2,989 pounds per acre,

compared with average plantings of 1.53 million acres and yields per acre of 2,711 pounds during 1998-2001.

Nationally, peanut planted acreage was down 12 percent in 2002, remained stable in 2003 and, based on USDA's Prospective Plantings report, is expected to be up about 2 percent in 2004. It appears some producers have decided it is more profitable to plant alternative crops or convert peanut acreage into pasture or other uses, rather than continue to produce peanuts.

Outlays under the new peanut program reached $1.6 billion in FY 2003 of which $1.2 billion was paid out in quota compensation payments. In addition to quota compensation payments, producers received $97 million in direct payments, $161 million in countercyclical payments and about $50 million in marketing assistance loan benefits for peanuts in FY 2003.

Under the peanut marketing assistance loan program, the loan rate is $355 per ton, compared with a U.S. average loan rate for quota peanuts under the 1996 Farm Bill of $610 per ton. The reduction in the loan rate has led to a lower average price for peanuts and has reduced imports of peanuts and peanut products. For example, prior to implementation of the 2002 Farm Bill, Argentina completely filled its import quota but has shipped only 36 percent of its quota in the past 12 months.

Establishing the loan repayment rate for peanuts has been complicated by a lack of transparent and consistent price information covering all segments of the peanut industry. USDA continues to work with the peanut industry to improve price discovery mechanisms and provide more price transparency for both domestic and international market transactions. USDA has contracted with a third party to examine options for improving the price information used in determining the loan repayment rate and is hopeful that these efforts will lead to more transparent and consistent price information.

U.S. peanuts exports have also declined, reflecting lower production and increased domestic use. During the 2001 crop year, 700 million pounds of U.S. peanuts were exported. U.S. peanut exports fell to 490 million pounds this past season and are forecast to be unchanged this marketing year.

For program pulse crops, transparent and consistent price information for administering the marketing loan program has been difficult to obtain, similar to the problems faced with peanuts.

The 2002 Farm Bill continued the price support program for sugar. As under the 1996 Farm Bill, the loan rate for raw cane sugar is $0.18 per pound and the loan rate for refined beet sugar is $0.229 per pound.

The 2002 Farm Bill established a new marketing allotment program for sugar processed from sugar beets and sugarcane. The 2002 Farm Bill directs the Secretary to set the overall allotment quantity (OAQ) pursuant to a statutory formula at a level that will result in no forfeitures of sugar to the CCC. Under the formula for determining the OAQ, the Secretary must estimate sugar consumption, carry-in stocks and reasonable carry-over stocks. Reflecting uncertainty regarding these estimates, USDA gradually increased the OAQ over the course of the 2002/03 marketing year, as market prices remained above forfeiture levels. It also became increasing clear that "consumption" as reported by the industry included actual deliveries as well as sales for delivery in the future, making it difficult to interpret trends in U.S. sugar consumption. For the year, U.S. production plus imports slightly exceeded total use and the CCC was able to sell its sugar stocks without causing loan forfeitures.

At the start of 2003/04, USDA set the OAQ at 8.55 million tons and held 0.3 million tons in reserve. The reserve portion of the OAQ reflected uncertainties regarding carry-in,

consumption and imports. In April, USDA announced that the reserve would be cancelled. For the marketing year, production plus imports are projected to exceed total use by 0.6 million tons. As a result, stocks are projected to increase from 1.7 million tons at the beginning of this marketing year to 2.2 million tons at the beginning of the 2004/05 marketing year.

Despite the projected increase in stocks, the Prospective Plantings report indicates that producers intend to plant the same amount of acreage to sugar beets as last year. Assuming normal yields and no significant increase in imports, carryover stocks are projected to rise to 2.3 million tons at the end of the 2004/05 marketing year.

The 2002 Farm Bill continues the price support program for milk at $9.90 per cwt. through December 31, 2007. The Dairy Export Incentive Program continues through 2007. The 2002 Farm Bill also authorized a new program that provides direct payments to dairy producers, the Milk Income Loss Contract (MILC) program. Under the MILC program, dairy producers receive direct payments if the monthly Class I price in Boston is below $16.94 per cwt.

USDA began issuing payments under the MILC program in October 2002 and has paid out $2 billion in MILC payments to producers since then. At the time the 2002 Farm Bill was enacted, the Congressional Budget Office (CBO) projected MILC payments would total $1.0 billion through September 30, 2005, the life of the program. The payment rate has ranged from a high of $1.82 per cwt. in April 2003 to a low of zero in during September through December of 2004. Reflecting the recent surge in milk prices, no payments will be made under the MILC program in May, and no payments are projected over the next several months.

The 2.4-million-pound annual cap on payments has been effective in shifting payments to areas of the country with smaller herds. For example, Arizona, California, Idaho and New Mexico account for about one-third of total milk production. Producers in these four States have

received about 10 percent of total MILC payments. In contrast, Minnesota, New York, Pennsylvania and Wisconsin also account of about one-third of total milk production and producers in these four States have received nearly one-half of total MILC payments.

Implications for Market Efficiency. The 2002 Farm Bill continued the market-oriented planting flexibility provisions of the 1996 Farm Bill. A producer may plant any commodity on base acres, except under certain circumstances, fruits, vegetables and wild rice, without loss of direct and countercyclical payments. The decoupling of payments from planting decisions enables producers to choose the mix of crops that best meet economic, conservation and other objectives. This freedom of choice in determining the mix of crop to produce eliminates inefficiencies caused by government-imposed planting restrictions. While there has been some criticism that the 2002 Farm Bill "recoupled" production through its base and yield updating provisions, planting data to date suggest producers continue to make planting decisions on market conditions, not base allocations.

Producers have responded to the evolution toward greater planting flexibility and reliance on market returns, as well as agronomic considerations, by shifting the mix of crops produced. For example, 57.8 million acres were planted to soybeans in 1990, down from a peak of more than 71 million in 1979. With the increased planting flexibility beginning with the 1996 Farm Bill, soybean acreage grew to 64.2 million acres in 1996, to 74.0 million in 2002, and a record high 75.4 million expected in 2004. Expansion has occurred in the Midwest as producers have moved to corn/soybean crop rotations on more acreage, and the Upper Midwest and Western States, as improved seed varieties have led to higher yields in these regions. In contrast, producers have elected to reduce plantings of wheat and minor feed grains in the face of better alternatives and continued dry conditions in some areas. For example, USDA expects 59.5

million acres planted to wheat in 2004, compared with 77.0 million in 1990 and over 75 million in 1996.

Farm program benefits are received by about one-third of all U.S. farms and cover about 80 percent of principal crop acreage, consequently farm programs do not directly affect a substantial portion of U.S. agriculture. While market forces have increased in importance for the portion of U.S. agriculture covered by farm programs, certain programs such as marketing assistance loans and MILC payments remain coupled to production decisions, which has the benefit of providing more support when production increases and prices decline, but risks prolonging recovery by blunting supply adjustment.

Conservation Programs. The support provided to commodity producers was also enhanced by the expansion of conservation programs in the 2002 Farm Bill and these deserve mention. Several existing programs were reauthorized and new programs added to assist producers in addressing conservation concerns on working lands. At the time the 2002 Farm Bill was enacted, CBO projected outlays under the conservation provisions of the 2002 Farm Bill would be $6.5 billion during FY 2002-07 and over $14 billion during FY 2002-11.

Some of the major conservation provisions of the 2002 Farm Bill include: (1) an increase in maximum enrollment in the CRP from 36.4 million acres to 39.2 million acres; (2) a steady increase in the level of funding for the EQIP to $1.3 billion in FY 2007; (3) an increase in maximum enrollment in the WRP to 2.275 million acres; (4) establishment of a Grassland Reserve Program (GRP), in which up to 2 million acres may be enrolled to assist producers in restoring and conserving grassland; and (5) creation of the CSP to assist producers in implementing and maintaining conservation practices on working lands.

To implement the many conservation programs under the 2002 Farm Bill, USDA developed and issued new program rules, trained and updated its workforce and partners on program changes and sought to deliver the programs to America's farmers and ranchers in a timely and efficient manner.

The final rule implementing EQIP was published on May 30, 2003, after evaluating and considering 1,250 public comments. During FY 2003, USDA approved 30,251 EQIP contracts and obligated $483 million in EQIP funds. In FY 2004, USDA has allocated over $900 million in EQIP funding to the States.

USDA conducted the first general sign-up for the CRP under the 2002 Farm Bill from May 5 through June 13, 2003. Over 71,000 offers for about 4.1 million acres were received and 38,000 offers were accepted for 2.0 million acres. There are currently 34.7 million acres enrolled in the CRP. Given the record high average farm prices this spring and tight crop stocks situation, we have decided to wait until this summer before deciding when to conduct another general CRP sign-up. This will give the Department time to more fully evaluate the supply/demand outlook for major crops for the upcoming marketing year, which will be heavily influenced by this summer's weather.

USDA is aggressively moving forward on implementation of the CSP. We conducted 10 national listening sessions and met with numerous stakeholders in various States prior to issuing the proposed rule. The public comment period closed on March 2 and the Department is evaluating the more than 14,000 public responses. USDA's next step is to conduct a thorough review of the comments, which will be used in developing the final rule. We are on schedule to publish a final rule early this summer followed by program sign-up.

The GRP assists landowners in restoring and protecting grassland. On June 30, 2003, USDA announced the first sign-up for the GRP under a "Notice of Availability of Program Funds." In FY 2003, 241,000 acres were enrolled in the GRP at a cost of $51.3 million. On May 11, USDA released an interim final rule for the GRP. Following publication in the Federal Register, the Department will begin signup, with applications filed any time during the year.

Conclusion

The 2002 Farm Bill was an outgrowth of concerns expressed by producers, consumers, agribusiness, rural communities and many other stakeholders. Two of those concerns were a desire for a stronger, built-in safety net that producers and their lenders could count on when market prices dropped to low levels and the need to have better tools for addressing resource concerns on working lands. While it may be premature to assess the 2002 Farm Bill's performance at the end of only its second year, there appears to be general agreement the 2002 Farm Bill has put in place a set of programs that address both of those concerns.

Commodity programs are functioning as envisioned, with current tight supplies and higher prices for major crops leading to lower payments to producers. Resources are being allocated by costs and returns largely determined by market prices. Producers have the freedom to select their most profitable enterprises. Our domestic programs have stayed within the $19.1 billion WTO commitment for the Aggregate Measure of Support, and the 2002 Farm Bill's "circuit breakers" assure that commitments will be met. We are also nearing the time when all the conservation programs authorized by the 2002 Farm Bill will be fully operational and provide new and improved tools for producers and others to address resource concerns, especially resource concerns on working lands.

This does not mean the 2002 Farm Bill is without its challenges. Over its remaining life numerous issues may be confronted: When market prices decline, can higher payments be sustained in the face of Federal budget deficits and competing funding needs? If not, what risk management alternatives are feasible? Are the needs of all types and sizes of producers being adequately met by the 2002 Farm Bill programs? And, there are technical issues as well; for example, will price discovery problems for new marketing loan programs such as pulses and peanuts be solved?

This completes my testimony, and I will be happy to address any questions.

Table 1. Farm Economic Indicators

Commodity Prices	Unit	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04F	2004/05F
Wheat	$/bu	2.65	2.48	2.62	2.78	3.56	3.40	3.55
Corn	$/bu	1.94	1.82	1.85	1.97	2.32	2.50	2.75
Soybeans	$/bu	4.93	4.63	4.54	4.38	5.53	7.65	6.35
Rice	$/cwt	8.89	5.93	5.61	4.25	4.49	7.50	8.50
Cotton	cents/lb	60.20	45.00	49.8	29.8	44.5	62.7 1/	NA
		1999	2000	2001	2002	2003	2004F	2005F
Hogs	$/cwt	34.00	44.70	45.81	34.92	39.45	46.00	45.50
Choice steers	$/cwt	65.56	69.65	72.71	67.04	84.69	84.50	85.50
Broilers	cents/lb	58.10	56.20	59.10	55.60	62.00	73.00	71.00
Milk	$/cwt	14.38	12.40	14.97	12.11	12.52	16.55	13.55
Gasoline, all grades 2/	$/gallon	1.18	1.53	1.47	1.39	1.60	1.87	1.80
Diesel 2/	$/gallon	1.12	1.49	1.40	1.32	1.51	1.67	1.62
Natural gas (wlhd) 2/	$/K cu. ft.	2.19	3.70	4.02	2.95	4.98	5.47	5.87
Electricity 2/	$/kwh	8.16	8.24	8.62	8.46	8.71	8.98	9.13
Ag. Trade (Bil. $)	FY98	FY99	FY00	FY01	FY02	FY03	FY04F	FY05F
Total exports	53.6	49.1	50.7	52.7	53.3	56.2	59.0	NA
Asia	19.7	18.5	19.7	20.1	19.4	21.6	22.1	NA
Canada	7.0	7.0	7.5	8.0	8.6	9.1	9.9	NA
Mexico	6.0	5.7	6.3	7.3	7.1	7.7	7.7	NA
Total imports	36.8	37.3	38.9	39.0	41.0	45.7	49.5	NA
Farm Income (Bil. $)	1998	1999	2000	2001	2002	2003	2004F	2005F
Cash receipts	196.8	187.6	192.0	199.8	192.9	212.4	215.0	NA
Gov't payments	12.4	21.5	22.9	20.7	11.0	17.4	10.3	NA
Gross cash income	222.5	224.0	228.6	235.3	218.4	244.9	240.9	NA
Cash expenses	165.5	166.6	172.1	176.1	170.2	181.9	185.0	NA
Net cash income	57.0	57.5	56.5	59.2	44.1	63.0	55.9	NA

F=forecast.

1/ August through March average.

2/ Source: Energy Information Administration, *Short Term Energy Outlook*, May 11, 2004.

Table 2. CBO Estimates of Farm Commodity Program Spending ($Bil.)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 02-05	FY 02-12
CBO Baseline, March 2002, Commodity Programs	13.368	11.417	9.496	8.167	42.448	83.895
CBO 2002 Farm Bill, March 2002, Title I 1/	14.333	18.583	17.526	15.946	66.388	144.429
CBO Baseline, March 2004, Commodity Programs 2/	13.177	12.123	10.071	10.901	46.272	144.881
Change from Farm Bill	-1.156	-6.46	-7.455	-5.045	-20.116	0.452

1/ Calculated as CBO estimates of outlay changes due to Title I of the Farm Bill added to the CBO March Baseline for Commodity Program outlays.
2/ USDA estimate for FY 2002 and CBO March 2004 Baseline thereafter.

Table 3. USDA Estimates of Farm Commodity Program Spending ($Bil.)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 02-05	FY 02-12
USDA Baseline, February 2002, Commodity Programs	13.271	8.289	7.345	6.347	35.252	68.97
USDA Baseline, July 2002, Commodity Programs	15.022	19.928	17.716	14.973	67.639	129.461
USDA Baseline, February 2004, Commodity Programs	13.177	12.125	11.166	12.002	48.47	117.542
Change from July 2002	-1.845	-7.803	-6.550	-2.971	-19.169	-11.919

Table 4. USDA Estimates of Farm Commodity Program Spending ($Bil.)

	2002/03	2003/04	2004/05	2005/06	2002-05
Direct Payments					
USDA Baseline, July 2002	5.226	5.226	5.226	5.226	20.904
USDA Baseline, February 2004	5.296	5.210	5.310	5.284	21.100
Change	0.07	-0.016	0.084	0.058	0.196
Counter-cyclical Payments					
USDA Baseline, July 2002	6.976	6.363	5.820	3.859	23.018
USDA Baseline, February 2004	1.829	2.45	3.942	3.976	12.197
Change	-5.147	-3.913	-1.878	0.117	-10.821
Loan Deficiency Payments					
USDA Baseline, July 2002	5.209	3.681	2.111	0.992	11.993
USDA Baseline, February 2004	0.546	0.483	1.001	1.021	3.051
Change	-4.663	-3.198	-1.110	0.029	-8.942

Fig. 1--CBO Outlay Projections for the Commodity Credit Corporation

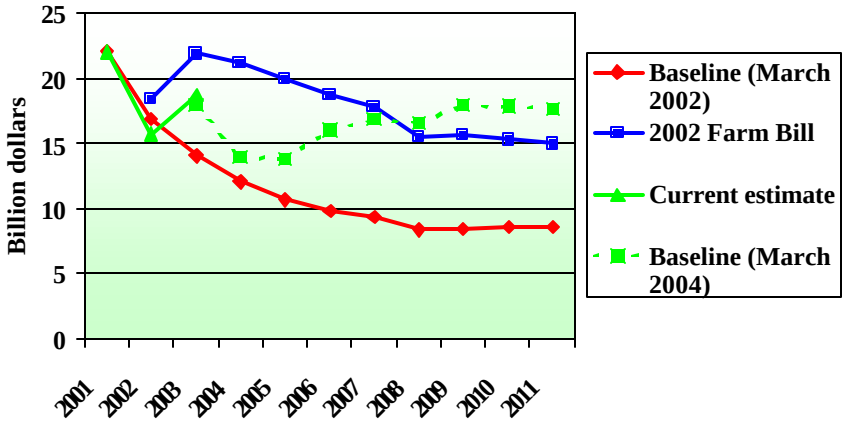

Fig. 2--Commodity Price Forecasts

Commodity	*Previous 5-yr. avg.*	*2003/04F for crops 2004F for livestock*	
Wheat ($/bu)	2.82	3.40	+21%
Corn "	1.96	2.50	+28%
Soybeans "	4.77	7.65	+60%
Cotton ($/lb)	0.46	0.63 to Dec.	+37%
Rice ($/cwt)	5.76	7.50	+30%
Cattle "	71.94	84.50	+17%
Hogs "	39.79	46.00	+16%
Broilers "	58.20	73.00	+25%
Milk "	13.30	16.55	+24%

Fig. 3--U.S. Net Farm Income: *Wheat, Corn, Sorghum, Barley, Oats, Cotton, Rice & Soybeans*

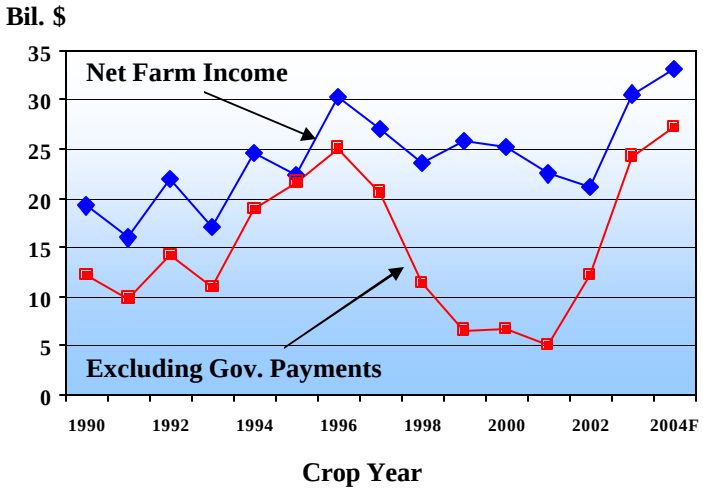

Fig. 4--U.S. Acreage Changes Since 1990